Opening Remarks by Mr. Tony Latter at the Signing Ceremony for the Appointment of the Dao Heng Bank Group, HSBC and Hang Seng Bank as Placing Banks for the Retail Bonds of the HKMC

22 October 2001

Good afternoon ladies and gentlemen,

In my capacity as a Director of the Hong Kong Mortgage Corporation, I would like to welcome you all to this signing ceremony.

The HKMC has devoted substantial resources to promoting its debt securities to retail investors since the launch of its first retail issue in 1999. This commitment serves the multiple objectives of broadening the Corporation's investor base, providing the general public with an additional and relatively safe investment choice, and developing the bond market in Hong Kong.

The Corporation is grateful to the regulatory authorities and capital market participants for their support in enabling us to establish an efficient platform for the listing and trading of the retail bonds on the Stock Exchange, and for their help – along with that of the media – in our efforts to give the public a better understanding of the economics and procedures of investing in bonds.

We are beginning to see some positive results of these efforts. The last issue of bonds with a retail portion, offered in August, was two times over-subscribed, resulting in the HKMC increasing the allocation amount for the retail tranche from HK$100 million to HK$250 million.

Current market conditions appear particularly conducive to attracting retail interest in our bonds. Time deposit rates have fallen markedly – for example, to around 0.5-1.5% for medium size placements at six months. This reflects not only the successive reductions in interest rate levels globally, but also the fact that banks in Hong Kong are generally flush with funds and therefore not bidding aggressively for deposits. This has enhanced the relative attractiveness of corporate bonds, which offer a significant yield pick-up.

Moreover, partly as a result of the weakness of loan demand, several banks are looking more towards fee income, and are accordingly expanding their securities brokerage and unit trust operations – including attention to the potential interest of retail customers in bonds.

It seems likely that the growing investor interest in bonds may also be partly related to some increased caution, under current market conditions, towards other usually popular asset classes, such as equities and residential property.

In a recent review conducted by the HKMC, feedback from retail investors identified three particular qualities desired of a retail bond product. First, the channels for subscription and subsequent trading in the secondary market should be convenient and easily accessible. Second, there should be some assurance that holdings can be liquidated, if the need arises, at any time prior to the maturity date. Third, there should be some choice in terms of the tenor of the bonds on offer.

The HKMC has now devised a new offering mechanism which endeavours to take these preferences into account.

First, by appointing Dao Heng Bank, HSBC and Hang Seng Bank as placing agents, retail investors can make use of the convenient and familiar telephone and Internet banking facilities of these major retail banks to subscribe for the HKMC bonds, in addition to applying in person in any of the 106 designated branches.

Second, the new mechanism allows the HKMC to offer, under separate tranches of the same issue, bonds of different maturities and yields. The coming issue will be divided into two tranches, of 3-year and 5 -year maturity, for selection by the retail investors. Moreover, in order to provide flexibility to accommodate investor demand, the HKMC is not specifying in advance any cap on the maximum amount per application or the total issue size.

Third, we are introducing a formal market-making arrangement to provide liquidity for the retail bonds in the secondary market. The three Placing Banks will undertake to quote firm bid prices during business hours. This will ensure that retail investors can liquidate their holdings at any time. Additionally, in order that the Placing Banks may also be able to quote prices on the offer side, an additional 20% of the total issue amount will be held in reserve for tapping by these banks to meet prospective demand from retail investors in the secondary market. The Placing Banks will be obliged to quote firm offer prices until the reserve amount is exhausted, and will continue to do so on a best efforts basis afterwards.

Let me now turn to the real business of this occasion and say how very pleased we are to have secured the support of Dao Heng Bank, HSBC and Hang Seng Bank to act as the Placing Banks for the inaugural issue under the new offering mechanism. These three banks, which are major retail banks in their own right, have been staunch supporters of HKMC's retail bond issues since 1999. Their experience and commitment, aided by their extensive branch networks and sophisticated telephone and Internet banking facilities, will, I am sure, be effective in promoting the HKMC notes to the general public.

Thank you.